MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BFN 2114 – INVESTMENTS
(ALL SECTIONS)

16 OCTOBER 2019
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 7 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. In a value weighted index,

a. large companies have a disproportionate influence on the index.
b. exchange rate fluctuations have a small impact.
c. medium companies have a disproportionate influence on the index.
d. small companies have an exaggerated effect on the index.
e. None of these are correct.

Q2. In a price weighted average stock market indicator series, the following type of stock has the greatest influence:

a. the stock with the highest price.
b. the stock with the lowest price.
c. the stock with the highest market capitalisation.
d. the stock with the lowest market capitalisation.
e. the stock with the highest price-earnings (P/E) ratio.

Q3. For an indexed portfolio, the fund manager will typically

a. attempt to replicate the composition of the particular index exactly.
b. not replicate the composition of the particular index.
c. not alter the weights when the index composition is changed.
d. generate high trading expense ratios.
e. generate high management expense ratios.

Q4. Which of the following would be inconsistent with an efficient market?

a. Information arrives randomly and independently.
b. Stock prices adjust rapidly to new information.
c. Price changes are biased.
d. Price changes are random.
e. Price adjustments are independent.

Continued...

Q5. Which of the following behaviours is consistent with escalation bias?

a. Buying more of a stock as it increases in value
b. Selling a stock as it increases in value
c. Selling a stock as it decreases in value
d. Buying more of a stock as it decreases in value
e. Buying or selling a stock as it increases in value

Q6. According to prospect theory,

a. investors have a propensity to sell winners too soon and hang on to losers too long.
b. investors ignore bad news and overemphasize good news.
c. investors tend to follow the herd.
d. investors put more money into a failure rather than into a success.
e. investors are all noise traders.

Q7. According to Wood (2010), which three tributaries form the river of behavioural finance?

a. Behavioural psychology, social psychology, and quantum physics.
b. Behavioural psychology, social psychology, and neurofinance.
c. Behavioural psychology, contrary psychology, and quantum physics.
d. Behavioural psychology, smart money psychology, and brain plasticity.
e. Behavioural psychology, contrary psychology, and neurofinance.

Q8. In tests of the semi strong-form efficient market hypothesis, an adjustment for market effects is carried out by

a. calculating the historical return.
b. calculating the market rate of return.
c. calculating the abnormal rate of return.
d. calculating the cross-sectional return.
e. calculating the monthly return.

Continued...

Q9. According to the dividend growth model, if a company were to declare that it would never pay dividends, its value would be

a. based on earnings.
b. based on expectations.
c. higher than similar firms because it could reinvest a greater amount in new projects.
d. zero.
e. based on the capital asset pricing model.

Q10. Which of the following is NOT an advantage of technical analysis identified by technicians?

a. Fundamental analysis depends heavily on financial accounting statements.
b. The majority of investors cannot consistently process new information correctly.
c. Fundamental analysis may not time the investment properly when trading under-or over-valued securities.
d. The majority of investors cannot process new information quickly enough.
e. All of these are correct.

Q11. The dividend payout ratio for the aggregate market is 45 percent, the required rate of return is 16 percent, and the expected growth rate for dividends is 6 percent. Compute the current earnings multiple.

a. 4.50
b. 2.81
c. 7.50
d. 4.00
e. 3.00

Q12. To a technician that believed in the importance of volume, a bullish signal would occur when

a. prices increase on light volume.
b. prices increase on heavy volume.
c. prices decrease on light volume.
d. prices decrease on heavy volume.
e. prices increase on declining volume.

Continued...

Q13. In 2018, Sing Berhad issued a RM50 par value preferred stock that pays a 6 percent annual dividend. Due to changes in the overall economy and in the company's financial condition, investors are now requiring a 7 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?

a. RM42.86
b. RM30.00
c. RM31.54
d. RM33.38
e. RM38.37

Q14. Expected earnings per share estimates requires all of the following EXCEPT

a. a sales per share estimate.
b. an estimate of the real risk-free rate.
c. an aggregate operating profit margin estimate.
d. a gross domestic product (GDP) estimate.
e. a tax rate estimate.

Q15. The growth rate will most likely increase if the

a. retention ratio decreases.
b. payout ratio decreases.
c. return on equity decreases.
d. net income increases.
e. gross income decreases.

Q16. Defensive companies are firms in which

a. sales, earnings, and cash flows are extremely uncertain and not necessarily related to the economy.
b. sales, earnings, and cash flows are likely to withstand changes caused by the economic environment.
c. sales, earnings, and cash flows are heavily influenced by aggregate business activity.
d. sales, earnings, and cash flows are growing exponentially.
e. None of these are correct.

Continued...

Q17. Which of the following statements concerning SWOT analysis is FALSE?

a. Strengths are the factors that give the firm a comparative advantage in the marketplace.
b. Weaknesses result when the company has potentially exploitable advantages over other firms.
c. Opportunities are environmental factors that favour the firm.
d. Threats are environmental factors that can hinder the firm in achieving its goals.
e. None of these are correct (that is, all statements are true).

Q18. In Berkshire Hathoway's annual reports, Warren Buffet highlights business tenets that he believes are important. Which of the following is **not** a business tenet of Warren Buffet?

a. Is the business unique and technologically advanced?
b. Does the business have a consistent operating history?
c. Does the business have favorable long-term prospects?
d. a and b above.
e. All of the above are business tenets of Warren Buffet.

Q19. Which of the following is **not** characteristic of the "decline" stage of the industry life cycle?

a. Little product differentiation
b. Substantial manufacturing overcapacity
c. Many competitors
d. Falling prices
e. None of the above (this is, all are characteristics of the "decline" phase)

Q20. Which of the following is NOT considered in the price-earnings ratio technique?

a. Firm's required rate of return on equity (k)
b. Firm's dividend payout ratio (D/E)
c. Firm's expected growth rate of dividends (g)
d. All of these are correct (that is, all are components of the P/E ratio).
e. None of these are correct (that is, none are components of the P/E ratio).

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SECTION B (60 marks): Answer ALL questions.

Question 1

Discuss the implications for investors based on the following scenarios:

(a) If Bursa Malaysia is found in the weak-form efficiency level. **(6 marks)**

(b) If Bursa Malaysia is found in the semi-strong efficiency level. **(6 marks)**

(c) If the Federal Reserve in United States to cut interest rates in coming meeting in 2019. Subsequently, the move is followed by Bank Negara Malaysia, central bank of Malaysia. **(8 marks)**

(Total: 20 marks)

Question 2

(a) Describe how investors use the technical indicators of volume of two different moving averages to form the trading rules and construct them in a chart. Indicate the buy and sell signals of these trading rules in a chart. Label the chart. **(6 marks)**

(b) Describe one (1) of the following line charts: Support and resistance, point and figure, simple line or bar chart. Construct them in a graph form. Label the graph. **(5 marks)**

(c) Oakville Berhad has a current price of RM40 a share, an expected growth rate of 11 percent and expected dividend per share (D_1) of RM3. Given its risk, you have a required rate of return for it of 13 percent. You are required to compute expected rate of return and make the right investment decision. **(7 marks)**

(d) Explain any one of the factors that influences a market index construction. **(2 marks)**

(Total: 20 marks)

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Question 3

(a) Use the information below to solve the problem:

Companies	Number of share outstanding	Closing Prices (per share) (RM) Day T	Closing Prices (per share) (RM) Day T + 1
1	2,000	30.00	25.00
2	7,000	55.00	60.00
3	5,000	20.00	25.00
4	4,000	40.00	45.00

Assume that a price-weighted indicator consisted of the four stocks with their prices. Estimate the values of the price-weighted indicator for Day T and T + 1 and what is the percentage change?

(7 marks)

(b) Super Happy Berhad's last dividend was RM2.70, and the directors expect to maintain the historic 3 percent annual rate of growth. You plan to purchase the stock today because you feel that the growth rate will increase to 5 percent for the next three years and the stock will then reach RM26 per share. You are required to compute the following:

(i) How much should you be willing to pay for the stock if you require a 17 percent return? If the current market price is RM20.50, will you buy the stock and why or why not?

(8 marks)

(ii) How much should you be willing to pay for the stock if you feel that the 4 percent growth rate can be maintained indefinitely and you require a 17 percent return?

(5 marks)

(Total: 20 marks)

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